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## USSR's Hard Currency Outlook Poor (U)

Skyrocketing imports from the West—especially grain—and a soft world market for Soviet oil are the major factors in the Soviet hard currency squeeze. Only an unlikely combination of events—no sharp drops in oil available for export, a tightening of Western oil markets, and a series of good Soviet grain harvests—would offer relief from the current hard currency bind. A Soviet perception that it must provide substantial hard currency support to Poland would greatly compound the problem. ☐

come on stream until 1986 at the earliest. Even its anticipated annual net earnings of \$5 billion will not offset the expected drop in income from oil exports unless Moscow reduces supplies now going to Eastern Europe—a politically risky alternative. ☐

25X1

Other exports are likely to show little or no growth in the 1980s:

- Prospects for nonenergy raw materials exports are poor because production and transportation costs are high.
- Exports of manufactures probably will not increase much because of deficiencies in quality and marketing.

Receipts from arms sales (including payments from earlier deliveries) are already large—about ☐ 25X1 a year—and a substantial increase appears unlikely.

More gold sales run the risk of spoiling the market. ☐ 25X1

### *Credits Crucial*

A stagnation or decline in Soviet hard currency earnings will mean no increase in hard currency imports unless the West provides the necessary credits and Moscow accepts a substantially larger hard currency debt. If imports increase only 3 percent a year in real terms, indebtedness and debt service requirements would almost certainly reach an unacceptable level by the end of the decade. Net debt would rise from \$12 billion at present to nearly \$40 billion in 1985 and at least \$100 billion by 1990. The debt service ratio would at least double by 1985. If Moscow feels it necessary to fund some of the \$2-3 billion a year of Western food and industrial materials Poland can no longer afford, the Soviet debt will climb even higher. ☐

25X1

### *Over the Longer Term*

If, as we expect, the USSR fails to maintain a substantial volume of crude oil exports to the West, a major hard currency crunch is in store. The only significant new source of hard currency earnings on the horizon is the Yamal gas pipeline, but it will not

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The USSR is unlikely to push hard currency imports to the limit of what Western creditors will finance but rather will slowly cut back on imports of the least essential products. If continued cuts are necessary, however, Moscow will face difficult decisions in the longer term because the bulk of its hard currency imports are important to high-priority Soviet goals for food production, energy development, and raising the level of technology and productivity of Soviet industry. Even in the near term, the USSR's worsening hard currency position will make it much harder for Moscow to provide substantial support to Poland or other East European countries. ☐

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